

HOUSE JOINT RESOLUTION NO. 42

INTRODUCED BY JENT

BY REQUEST OF THE HOUSE STATE ADMINISTRATION STANDING COMMITTEE

A JOINT RESOLUTION OF THE SENATE AND THE HOUSE OF REPRESENTATIVES OF THE STATE OF MONTANA REQUESTING THAT A LEGISLATIVE STUDY BE CONDUCTED ON HOW PUBLIC EMPLOYEE RETIREMENT FUNDS ARE INVESTED AND HOW INVESTMENT PERFORMANCE, RETIREMENT PLAN BENEFITS, AND LEGISLATIVE POLICY DECISIONS INTERACT TO AFFECT THE ACTUARIAL SOUNDNESS OF THE PUBLIC EMPLOYEE RETIREMENT PLANS AND EMPLOYER'S FUNDING OBLIGATIONS.

WHEREAS, a significant decline in the market value of public retirement plan investments from fiscal year 2000 through fiscal year 2003 resulted in actuarial losses to the public retirement plans totaling more than \$1.3 billion; and

WHEREAS, as a consequence of these actuarial losses, the amortization schedules for paying off unfunded liabilities in the teachers', public employees', sheriffs', and game wardens' and peace officers' retirement systems had to be extended to well beyond 30 years; and

WHEREAS, Article VIII, section 15, of the Montana Constitution requires that the public retirement systems be funded on an actuarially sound basis; and

WHEREAS, the Legislature has interpreted "actuarially sound basis" to mean having an amortization period of 30 years or less;

WHEREAS, the retirement boards requested legislation to increase employer contributions to the public employee retirement plans until funding was adequate to reduce the amortization schedules to under 30 years; and

WHEREAS, the employer contribution rate increases will require the Legislature to appropriate a total of nearly \$6.7 million in general fund money for state employer contributions during this biennium; and

WHEREAS, in each subsequent biennium, these employer contribution rate increases and the expected growth in the public employee payroll will increase general fund obligations each biennium until the retirement systems are sound; and

WHEREAS, local government and school district employer contribution rate increases will require local governments and school districts to contribute an additional \$20 million during the next biennium with that

1 amount increasing as salaries increase each biennium until the retirement systems are sound; and

2 WHEREAS, between 58% and 75% of the funding for the public employee retirement plans comes from
3 investment earnings, while only 12% to 20% of the funding comes from employer contributions; and

4 WHEREAS, public retirement plan funds are invested by the state Board of Investments and constitute
5 nearly \$6 billion or 62% of all investments managed by the Board of Investments; and

6 WHEREAS, the Legislature is responsible for oversight of the public employee retirement plans and
7 should consider how investment strategies, retirement benefits, and legislative policy decisions interact to affect
8 employer funding obligations.

9
10 NOW, THEREFORE, BE IT RESOLVED BY THE SENATE AND THE HOUSE OF REPRESENTATIVES OF
11 THE STATE OF MONTANA:

12 That the Legislative Council be requested to designate an appropriate interim committee, pursuant to
13 section 5-5-217, MCA, or direct sufficient staff resources to:

14 (1) review constitutional and statutory language governing how public employee retirement plan funds
15 are managed and invested;

16 (2) study the investment strategies, objectives, and asset allocation of public employee retirement funds
17 managed by the Board of Investments;

18 (3) compare the asset allocation, investment performance, and actuarial assumptions regarding
19 Montana's public employee retirement plan funds with asset allocation, investment performance, and actuarial
20 assumptions used in other states;

21 (4) study how investments or asset allocation strategies are adjusted by the Board of Investments either
22 in anticipation of changing needs or changing market conditions or after significant national and world events
23 affect the market;

24 (5) study actual rates of return versus actuarial gains and losses in market value and how actuarially
25 assumed rates of return adopted by the retirement boards relate to realized returns and the investment
26 objectives set by the Board of Investments;

27 (6) examine how investments, retirement benefits, and legislative policy decisions interact to affect the
28 actuarial soundness of the public employee retirement plans and employer funding obligations; and

29 (7) identify legislative policy issues and concerns, consider options, and develop recommendations.

30 BE IT FURTHER RESOLVED, that the Legislative Services Division explore whether technical

1 assistance is available and can be provided to assist in conducting this study.

2 BE IT FURTHER RESOLVED, that if the study is assigned to an interim committee, the committee be
3 staffed by the Legislative Services Division and, if appropriate and by request, that the interim committee also
4 receive staff assistance from the Legislative Fiscal Division and the Legislative Audit Division.

5 BE IT FURTHER RESOLVED, that if the study is assigned to staff, any findings or conclusions be
6 presented to and reviewed by an appropriate committee designated by the Legislative Council.

7 BE IT FURTHER RESOLVED, that all aspects of the study, including presentation and review
8 requirements, be concluded prior to September 15, 2006.

9 BE IT FURTHER RESOLVED, that the final results of the study, including any findings, conclusions,
10 comments, or recommendations of the appropriate committee, be reported to the 60th Legislature.

11 - END -